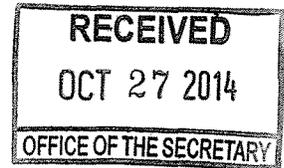


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-16182



In the Matter of

PAUL EDWARD "ED" LLOYD, JR., CPA

Respondent.

**ANSWER AND MOTIONS OF PAUL
EDWARD "ED" LLOYD, JR., CPA**

Pursuant to Securities Exchange Commission Rule 220, Paul Edward "Ed" Lloyd, Jr., CPA, submits the following answer to the Order Instituting Administrative and Cease-and-Desist Proceedings and Notice of Hearing in this action.

I.

The first paragraph is a recitation of a decision already made by the Securities and Exchange Commission. Paul Edward "Ed" Lloyd, Jr., CPA, admits that the Commission has, in fact, made the determination recited in "I." but denies that the Commission has jurisdiction to institute this proceeding or that the underlying allegations have a basis in law or in fact.

II.

SUMMARY

1. Admitted that in 2012 Paul Edward "Ed" Lloyd, Jr., CPA ("Lloyd") offered to 17 clients an opportunity to purchase an interest in a limited liability company called Forest Conservation, 2012, LLC, the purpose of which was to purchase an interest in an unrelated entity, with resulting significant tax benefits far in excess of the original investment, and secure a significant tax benefit. All of the promised benefits were delivered. The remaining allegations of paragraph 1 are false and are denied.

2. The Internal Revenue Code is a body of law that is the best evidence of its own contents and speaks for itself. Denied that paragraph 2 is an accurate recitation of all of the applicable provisions of the Internal Revenue Code, and denied that there was any “investment” in a “land conservation easement,” because there was never any intent of making a profit. Admitted only that a properly structured land conservation easement transaction may result (and in this case, did result) in a tax deduction greater than the cost of the ownership units purchased by the investor, and therefore, tax savings greater than the cost of the funds used. Otherwise denied.

3. Denied that paragraph 3 is an accurate or complete recitation of what Lloyd told his clients. However, admitted that Lloyd told his clients that the expected tax savings from the deduction would exceed the amount that each spent. Denied that there was any “investment” or “offering.” Any other allegations of paragraph 3 are false and are denied.

4. The allegations of paragraph 4 are false and are denied.

5. The allegations of paragraph 5 are false and are denied, except it is admitted that Lloyd received contributions from 17 clients, and that there was an operating agreement for Forest Conservation, 2012.

6. The allegations of paragraph 6 are false and are denied.

7. The allegations of paragraph 7 are false and are denied, except it is admitted that all of the clients received a tax deduction, in excess of the amount contributed, and exactly as promised.

8. Admitted that at other times Lloyd offered to other clients the opportunity to receive tax benefits through a donation of land conservation easements “similar to Forest Conservation 2012.” Admitted that Lloyd collected a fee. The allegations of paragraph 8 are otherwise false, and are denied.

RESPONDENT AND RELEVANT ENTITIES

9. The allegations of paragraph 9 are largely irrelevant but are admitted.

10. Admitted that Lloyd formed Forest Conservation 2012, LLC, a Wyoming Limited Liability Company, in 2012, in order to buy ownership interests in an entity that intended to acquire an ownership interest in land for the purpose of donating a conservation easement. Otherwise denied.

11. Admitted that Forest Conservation 2011, LLC and Forest Conservation 2012, II, LLC, are Wyoming Limited Liability Companies created by Lloyd for the purpose of buying ownership interests in unrelated entities. Admitted that the unrelated entities were created for the purpose of acquiring ownership interests in certain land and donating a conservation easement with resulting tax savings in excess of the purchase price. Otherwise denied.

BACKGROUND

12. Admitted that Lloyd learned of the specific tax savings devices from a third party. Denied for lack of information sufficient to form a belief as to whether the third party was a registered representative of a broker. Admitted that, in general, conservation easements as tax savings devices are often (but not always) structured through the purchase of an ownership interest in an entity which owns undeveloped real estate and then donates a conservation easement, generating tax deductions for the entities' owners. Denied that the entities' owners are investors. Otherwise denied.

13. Any documents distributed by brokers are written documents, are the best evidence of their own contents, and speak for themselves. To the extent that paragraph 13 alleges any facts that alter, vary, modify or go beyond the documents in any way, concerning the contents of the documents, they are denied. Otherwise denied.

14. Section 170(h) of the Internal Revenue Code (26 USC §170(h)) is a law and it speaks for itself. Denied that paragraph 14 is a full recitation of 26 USC §170(h).

Admitted that if the provisions of 26 USC §170(h) and other applicable portions of the Internal Revenue Code, and regulations issued thereunder, are complied with, owners of land for which a conservation easement is donated may obtain a tax deduction in an amount prescribed by the Internal Revenue Code. Otherwise denied.

15. Any documents distributed by brokers are written documents, are the best evidence of their own contents, and speak for themselves. To the extent that paragraph 13 alleges any facts that alter, vary, modify or go beyond the documents in any way, concerning the contents of the documents, they are denied. Otherwise denied.

16. Admitted that Lloyd created Forest Conservation 2011, LLC, Forest Conservation 2012, LLC, and Forest Conservation 2012 II, LLC, with the intention of acquiring ownership interests in entities, and that tax deductions would flow through Forest Conservation 2011, LLC, Forest Conservation 2012, LLC and Forest Conservation 2012 II, LLC in accordance with the applicable provisions of the Internal Revenue Code. Otherwise denied.

17. Admitted that Lloyd was the tax return preparer for each of the clients that participated in Forest Conservation 2011, LLC, Forest Conservation 2012, LLC and Forest Conservation 2012 II, LLC, and that Lloyd expected each client to receive tax deductions per Schedule K-1s issued to each client that, to the extent permitted by the Internal Revenue Code, could be used to lower their taxable income. Otherwise denied.

18. Denied. There were no "offerings of investments" in the Forest Conservation entities.

FOREST CONSERVATION 2011

19. Admitted that in or around December 2011 Lloyd learned of a specific opportunity to acquire potential charitable conservation easement deductions through a Georgia Limited Liability Company that intended to acquire an interest in undeveloped land in Alabama. The entity's offering summary is a written document that speaks for

itself and is the best evidence of its own contents. Denied that paragraph 19 is a full and accurate recitation of the contents of the documents issued by Land Entity B. Otherwise denied.

20. Admitted that Lloyd created Forest Conservation 2011, LLC, and that in December 2011 ten tax clients purchased ownership interests in Forest Conservation 2011. Admitted that Forest Conservation 2011 acquired ownership units in another entity. Otherwise denied.

21. Admitted that Lloyd received a fee from each tax client, and that Lloyd also participated as an individual in Forest Conservation 2011. Otherwise denied.

22. Admitted with respect to the client checks received for Forest Conservation 2011. Otherwise denied.

23. Denied. There was no offering.

24. Admitted that the entity in which Forest Conservation 2011 purchased an interest donated a conservation easement and issued a Schedule K-1 in accordance with the Internal Revenue Code, and that Forest Conservation 2011 then issued Schedule K-1s to its members, also in accordance with the Internal Revenue Code. Otherwise denied.

25. Admitted that as required by the United States Internal Revenue Code, Lloyd used and considered the information on the Schedule K-1s in the preparation of each client's individual income tax return for the 2011 calendar year, and that each client realized a reduction in taxes paid greater than the amount of the funds that each client had spent to acquire a membership interest in Forest Conservation 2011. Otherwise denied.

FOREST CONSERVATION 2012

26. Admitted that in 2012 Lloyd learned of an opportunity to purchase interests in an entity which would then acquire an interest in 439.86 acres of

undeveloped land in Tennessee, for the purpose of donating a conservation easement and generating corresponding tax benefits. Otherwise denied.

27. The offering summary for the "Land Entity A" is a written document that is the best evidence of its own contents and speaks for itself. Denied that paragraph 27 is a full and accurate recitation of the contents of the offering summary. Otherwise denied.

28. The offering summary for the "Land Entity A" is a written document that is the best evidence of its own contents and speaks for itself. Denied that paragraph 28 is a full and accurate recitation of the contents of the offering summary. Otherwise denied.

29. Any emails from "Representative A's assistant" to Lloyd are written documents that are the best evidence of their own contents, and speak for themselves. Admitted, however, that from the start there was an expectation that a tax deduction over four times the value of each investor's contribution to Forest Conservation 2012 was an expected result, and in fact, that occurred. Otherwise denied.

30. "Representative A's" communications to Lloyd are written documents that speak for themselves and are the best evidence of their own contents. To the extent the allegations of paragraph 30 alter, vary, modify or go beyond the written communications, in any way, they are denied. Denied for lack of information sufficient to form a belief as to "Broker A's" state of mind and denied that any action taken by "Broker A" was required by law. Otherwise denied.

31. Admitted that Lloyd created a limited liability company, Forest Conservation 2012, LLC, which would aggregate client purchases of membership interests, along with one of his own, and make a single purchase of a membership interest in a land entity. Otherwise denied.

32. Admitted that between August 2012 and December 2012 Lloyd made his clients aware of the opportunity to purchase interests in Forest Conservation 2012. Admitted that there were 17 tax planning clients who were made aware of this opportunity, and that some of them were also investment advisory clients. Admitted that Lloyd created Forest Conservation 2012, LLC, and admitted that Lloyd directed Forest Conservation 2012, LLC, to purchase a membership interest in a land entity. Denied that any of the interests purchased or sold were for purposes of investment or were securities, and otherwise denied.

33. Admitted only that Lloyd told his clients with respect Forest Conservation 2012, LLC, that their purchase of a membership interest would result in a pro-rata tax deduction based on their contribution, resulting in a reduction in income taxes greater than the amount contributed, and that he also made his clients aware of a fee that would be charged. Admitted that what he told them would happen is what did happen. Otherwise denied.

34. Admitted that "Broker A" provided Lloyd with paperwork, which is the best evidence of its own contents and speaks for itself. Otherwise denied.

35. Admitted that "Broker A" provided Lloyd with paperwork, which is the best evidence of its own contents and speaks for itself. Otherwise denied.

36. Admitted that "Broker A" provided Lloyd with paperwork, which is the best evidence of its own contents and speaks for itself. Otherwise denied.

37. Admitted that in December 2012 Lloyd deposited \$16,802.00 into the Forest Conservation 2012, LLC bank account, that all 17 clients who were purchasing membership interests in Forest Conservation 2012, had provided funds, totaling \$632,500.00 and admitted that Lloyd then wired \$543,552.00 from the Forest Conservation bank account to the escrow account for a land entity. Otherwise denied.

38. The “schedule of contributions by person” referred to in paragraph 38 is a written document that is the best evidence of its own contents and speaks for itself. To the extent the allegations of paragraph 38 alter, vary, modify, or go beyond the document in any way, they are denied. Otherwise denied.

39. The “schedule of contributions by person” referred to in paragraph 39 is a written document that is the best evidence of its own contents and speaks for itself. To the extent the allegations of paragraph 39 alter, vary, modify, or go beyond the document in any way, they are denied. Otherwise denied.

40. The “schedule of contributions by person” referred to in paragraph 40 is a written document that is the best evidence of its own contents and speaks for itself. To the extent the allegations of paragraph 40 alter, vary, modify, or go beyond the document in any way, they are denied. Otherwise denied.

41. The “schedule of contributions by person” referred to in paragraph 41 is a written document that is the best evidence of its own contents and speaks for itself. To the extent the allegations of paragraph 41 alter, vary, modify, or go beyond the document in any way, they are denied. Denied that the schedule is an accurate recitation of the ownership interests and percentages in Forest Conservation 2012, LLC, or that any percentage was fraudulently misstated. Otherwise denied.

42. The subscription agreement referred to in paragraph 42 is a written document which is the best evidence of its own contents and speaks for itself. To the extent that the allegations of paragraph 42 alter, vary, modify or go beyond the subscription agreement in any way, they are denied. Admitted only that the subscription agreement referred to listed a purchase price of \$543,552.00 which was the amount wired from the Forest Conservation 2012 account to Land Entity A. Otherwise denied.

43. Admitted, on information and belief.

44. The Schedules K-1 issued by the land entity to Forest Conservation 2012, LLC, and issued by Forest Conservation 2012, LLC, to the 17 clients and to Lloyd are written documents which are the best evidence of their own contents and which speak for themselves, and which, in fact, demonstrate that the ownership interests and tax benefits represented by Lloyd to his clients were in fact delivered, in full, and exactly as promised. Admitted that consistent with the requirements of the United States Internal Revenue Code, when Lloyd prepared income returns for the 17 clients, he used the information on the Schedule K-1s. Otherwise denied.

45. Denied, there was no offering.

MISREPRESENTATIONS

46. Denied.

47. Denied.

48. Lloyd's communications with "Representative A" are written documents which are best evidence of their own contents and speak for themselves. To the extent that the allegations of paragraph 48 alter, vary, modify or go beyond the contents of the documents in any way, they are denied. Otherwise denied.

49. Lloyd's communications with "Representative A" are written documents which are best evidence of their own contents and speak for themselves. To the extent that the allegations of paragraph 49 alter, vary, modify or go beyond the contents of the documents in any way, they are denied. Otherwise denied.

50. Denied. Clients A, B and C were members holding ownership interests in Forest Conservation 2012, contributed funds to Forest Conservation 2012, and the K-1s issued to them were issued in accordance with the United States Internal Revenue Code and state law. Otherwise denied.

51. Denied. Clients A, B and C were members holding ownership interests in Forest Conservation 2012, contributed funds to Forest Conservation 2012, and the K-1s

issued to them were issued in accordance with the United States Internal Revenue Code and state law. Otherwise denied.

FOREST CONSERVATION 2012 II

52. Admitted that in December 2012 Lloyd learned from "Representative A" that there was an opportunity to purchase membership interests in another entity, a Tennessee Limited Liability Company that intended to acquire an interest in undeveloped land and donate a conservation easement. Otherwise denied.

53. The "offering summary" of "Land Entity C" is a written document that speaks for itself and is the best evidence of its contents. To the extent that the allegations of paragraph 53 alter, vary, modify or go beyond the documents in any way, they are denied. Otherwise denied.

54. Admitted that in December 2012 Lloyd created Forest Conservation 2012 II, LLC, and sold \$164,220.00 of membership interests to six clients. Admitted that the clients were told of and paid a fee. Admitted that Lloyd collected fees from his clients. Otherwise denied, and specifically denied that there was an "offering."

55. Admitted that Land Entity C acquired a controlling interest in Tennessee land, donated a conservation easement, issued a Schedule K-1 to Forest Conservation 2012 II, and that Forest Conservation 2012 II, in accordance with the United States Internal Revenue Code, issued K-1s to the six clients based on their pro-rata ownership, thereby delivering to each and every client exactly what had been promised. Otherwise denied.

56. Denied. There was no "offering."

VIOLATIONS

57. Denied.

58. Denied.

59. Denied.

III.

The allegations of this section attempt to state a determination already made by the Commission concerning the structure of these proceedings. Denied that any of the allegations of the Division of Enforcement are true, that the Commission has jurisdiction over this matter, or that any of the remedies listed in section III are appropriate or supportable in law. Otherwise denied.

IV.

This paragraph is a recitation of the Commission's Order to which no response is required. To the extent a response is required, it is denied.

FIRST DEFENSE

The Commission lacks jurisdiction over this matter because the transactions at issue did not involve the purchase or sale of a security as defined in Section 2(a)(1) of the Securities Act.

SECOND DEFENSE

Because Lloyd did not act in connection with the offer or sale of a security, there was no violation of Section 17(a) of the Securities Act.

THIRD DEFENSE

The Commission has failed to allege or prove, and there is no evidence of, any intent to deceive, manipulate or defraud any person.

FOURTH DEFENSE

Because there was no purchase or sale of a security registered on a National Securities Exchange or any security not so registered, there was no violation of Section 10(b) of the Securities Exchange Act of 1934, or of 17 CFR § 240.10b-5.

SIXTH DEFENSE

There was no purchase or sale of a security, nor any intent to defraud with respect to any client, and therefore, no violation of Section 206(1), (2) or (4) of the Investment Advisors Act.

SEVENTH DEFENSE

In pursuing relief through an administrative proceeding, the Commission has sought to, and if the Commission succeeds it will, deprive Lloyd of property without due process of law, in violation of the Fifth and Fourteenth Amendments of the United States Constitution. In this proceeding, the Commission seeks to impose substantial civil penalties, disgorgement, with potential substantial consequences to Lloyd's professional license as a Certified Public Accountant, and otherwise. There is a substantial punitive element to the relief sought by the Commission in this action, and if it is successful, it will have the effect of depriving Lloyd of substantial property, both monetary, and his professional license, without due process. The absence of due process is shown by all of the following:

1. This proceeding will be had on an accelerated schedule with limited opportunity for discovery by Lloyd, even though the Commission has, for well over a year, had an opportunity to fully investigate the matter, take sworn testimony from witnesses, and gather documents together by subpoena. Lloyd is deprived of the same opportunity to take sworn testimony in advance of the hearing.
2. This proceeding is held on an accelerated schedule as required by the Commission's rules. The Commission's enforcement staff has had well over a year to prepare, while Lloyd will be required to present his defense, and meet the Commission's allegations, in no more than four months.

3. Lloyd is deprived of the opportunity to present his case to a neutral and disinterested fact finder. The administrative law judge to whom this matter is assigned is an employee of the Commission. Even if the administrative law judge constitutes a neutral and disinterested fact finder, the Commission itself may accept or reject any or all of the administrative law judge's findings of fact and conclusions of law, and substitute its own, unilateral and arbitrary judgment for that of the administrative law judge. In a very real sense, the Commission is the investigator, prosecutor, judge, jury, and at least in the first instance, court of appeals. Such does not comport with even elementary notions of due process, or of adherence to the rule of law.
4. Lloyd is deprived of a trial by jury in violation of the Fifth, Sixth, Seventh and Fourteenth Amendments to the United States Constitution.
5. The Commission's rules fail to afford Lloyd the protection of the Federal Rules of Evidence, which keep unreliable evidence from the finder of fact, and ensure that Lloyd has an opportunity to confront evidence and witnesses against him.
6. No statutory or regulatory standards guide the Enforcement Division's choice of forum. The Enforcement Division is empowered to arbitrarily choose whether to bring an action, such as this, in an administrative forum or in the federal district court.

Paul Edward "Ed" Lloyd, Jr., CPA, therefore requests that this action be dismissed, and that the Commission be required to pursue it, if at all, in the federal district court.

WHEREFORE, having responded to the Commission's allegations, Paul Edward "Ed" Lloyd, Jr., CPA, requests that this tribunal:

- (A) Dismiss these proceedings for lack of jurisdiction;

- (B) Dismiss these proceedings, because a continuation of these proceedings will deprive Lloyd of substantial due process rights, and his rights to trial by jury, in violation of the United States Constitution;
- (C) In the alternative, determine that there has been no violation of any of the laws alleged by the Commission, and exonerate Lloyd from the Division of Enforcement's unfounded charges of wrongdoing;
- (D) Grant Lloyd such other and further relief which as to the tribunal may seem just and proper.

This the 27 day of October, 2014.



Frederick K. Sharpless
SHARPLESS & STAVOLA, P.A.
PO Box 22106
Greensboro, NC 27420
Telephone: (336) 333-6384
fks@sharpless-stavola.com

5/ James Alex Rue by JLR
James Alex Rue
ALEX RUE LAW, LLC
4060 Peachtree Road, Suite D511
Atlanta, GA 30319
Telephone: (404) 808-1397
arue307@gmail.com

Attorneys for Respondent

OF COUNSEL:

William Woodward Webb, Jr.
THE EDMISTEN WEBB & HAWES LAW FIRM
PO Box 1509
Raleigh, NC 27602
Telephone: (919) 831-8700
woodywebb@mindspring.com